Wakefern Food Corporation
Cigarette Category Profitability

Issues For 1997 & Beyond

Source: https://www.industrydocuments.ucsf.edu/docs/kkwy0000

Topics

- ***Proposed FDA Regulations***
- ***Supermarket Segment***
- ***How profitable is the cigarette category?***
- ***Where do we go from here?***

Source: https://www.industrydocuments.ucsf.edu/docs/kkwy0000

Proposed FDA Regulations

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Important Note!

- ***The only regulation currently in effect requires the retailer to thoroughly check the ID of anyone who appears to be 26 years of age or younger.***
- ***<u>All other proposals</u> are currently being evaluated by a Federal Judge. A final ruling is expected in late March.***

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FDA Regulations Impact on Trade if Implemented :

Rules Effective February 28, 1997

- ***Minimum Sales Age*** - Retailers may not sell cigarettes or smokeless tobacco to anyone under 18 years of age
- ***Proof of Age*** - Retailers must verify by photo ID that any person purchasing cigarettes or smokeless tobacco is at least 18 years of age. Customers over 26 years of age do not need to be asked to verify age. Age does not need to be verified in facilities that are off-limits to persons under 18 years of age.

Rules Effective August 28, 1997

- ***Self-Service Display Ban*** - Retailers may not offer cigarettes and smokeless tobacco from self-service displays, except in facilities where persons under 18 years of age (including employees) are not permitted.
- ***Vending Machine Ban*** - Retailers may not sell cigarettes or smokeless tobacco from vending machines, except in facilities where persons under 18 years of age (including employees) are not permitted.
- ***No Breaking Packs*** - Retailers may sell cigarettes only in unopened packages containing at least 20 cigarettes or in cartons. Retailers may sell smokeless tobacco only as packaged by the manufacturer.
- ***Mail-Order Sales*** - Retailers may fill mail-order requests, but may not redeem coupons sent by mail.
- ***Exterior Signage*** - Retailers within 1000 feet of a playground or school may not display exterior or outdoor advertising for cigarettes or smokeless tobacco. Permitted advertising must be black text on white background.

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FDA Regulations Impact on Trade if Implemented :

Rules Effective August 28, 1997 (cont'd)

- ***Interior Advertising*** - All point-of-sale advertising in any form for cigarettes or smokeless tobacco is in a black text on a white background format, except in facilities where persons under 18 years of age (including employees) are not permitted. For "adult only" facilities, interior advertising may be in color and use imagery provided the advertising is attached to an interior wall or fixture and is not visible from the outside.

- ***Established Name/Intended Use Statement*** - Each advertisement for cigarettes or smokeless tobacco must carry the product's "established name" and "intended use" -- "Cigarettes -- a Nicotine-Delivery Device for Persons 18 or Older".

- ***No Branded Merchandise*** - The retailer or manufacturer may not sell or give away non-tobacco merchandise bearing a cigarette or smokeless tobacco brand name or logo.

- ***No Free Samples*** - Coupon redemption is permitted in face-to-face transactions, but retailers and manufacturers may not give cigarettes or smokeless tobacco away as free samples.

- ***Non-Complying Items*** - No piece of current advertising complies with the FDA regulation.

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Supermarket and Convenience Store Options

- Continue with business as usual ***but*** develop contingency plans that will maintain / build cigarette business in a restricted access environment.
- Begin immediately with store-in-a-store concepts that will answer restricted access legislation ***and*** strengthen your business against cigarette / tobacco store proliferation.
- Enter the free-standing cigarette / tobacco store class-of-trade in selected markets.

Monitor both FDA *and* Local legislative activity. Let your government officials know how proposed laws will impact your business.

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Cigarette Industry Critical Issues

- *FDA Regulations*
  - ***How do we continue to sell cigarettes, within the law, and keep the Category profitable?***
- *Cigarette/Tobacco Store Emergence*
  - ***This new "class of trade" continues to grow at a phenomenal rate as the Supermarket Segment neglects the Category.***
  - ***12% of all cigarettes sold nationally are now sold in Cigarette/Tobacco Stores/***

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Key Issues

What's happened to the cigarette category in supermarkets?

- ***Some stores have removed self-service package merchandisers from the sales floor.***
- ***Some stores have placed both cartons and packs in the customer service center.***
- ***Some stores have stopped selling packs***

Bottom Line

Supermarkets have made it difficult to buy cigarettes!!!

The cigarette purchaser does not feel welcome.

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Key Issues

What happens when a cigarette purchaser goes somewhere else to buy?

- ***They buy cigarettes***
- ***They buy other items....bread, milk, soda, etc.***

Why has the Convenience Store Segment shown tremendous growth in the past 5 years?

- ***Cigarettes are accessible***
- ***They're competitively priced***
- ***They offer "deals"***
- ***It's not a hassle to "get what I want"***

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Key Issues

How much in sales and profits are we talking about?

Can we do without it?

Is it really worth the hassle?

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Profit Example

- ***Shop Rite Supermarket with weekly sales average of 300 cartons.***
- ***Non self-service cartons, self-service packs***
- ***25% of total sales by the pack/75% by the carton***
  - ***Cartons priced at state minimum***
  - ***Packs priced at 25% gross profit***
- ***Retail Display contracts from RJR, Philip Morris, Lorillard, and BAT***
- ***Promotions from all companies***

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Shop Rite Supermarket
Per Store Profitability
Cigarette Category

Sales (cartons/year)	15,557
Category Sales $	$ 290,448.00
Profit (GM%)	$ 33,348
Avg. Weighted Gross Margin	11.5%
Manufacturer's Contracts	$ 6,156.00
Return on $ Invested	$ 3.37
Avail Promo $ (from manu.)	$ 5,712.00
Gross Profit $	$ 39,504

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Shop Rite Supermarket
Store Profitability (181 stores)
Cigarette Category

Sales (cartons/year)	2,815,864
Category Sales $	$ 52,571,028.00
Profit (GM%)	$ 6,036,058.00
Avg. Weighted Gross Margin	11.5%
Manufacturer's Contracts	$ 1,114,236.00
Return on $ Invested	$ 3.37
Avail Promo $ (from manu.)	$ 1,033,872.00
Gross Profit $	$ 7,150,294.00

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Where do we go from here?

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Cigarette Category Merchandising Options

- ***Non self-service cartons with solid locked security doors***
  - *Placed in front of registers*
  - *Visible to customers*
  - *Front end person to service customers*
  - *Price signage that clearly communicates Shop Rite's price advantage*
- ***Non self-service packs with solid security doors***
  - *Placed in front of registers*
  - *Visible to customers*
  - *Front end person to service customers*
  - *Price signage that clearly communicates Shop Rite's price advantage*

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Cigarette Category Merchandising Options

- ***Non self-service cartons in Customer Service Center***
  - ***Visible to customers***
  - ***Store personnel to service customers***
  - ***Price signage that clearly communicates Shop Rite's price advantage***
- ***Non self-service packs in Customer Service Center***
  - ***Visible to customers***
  - ***Store personnel to service customers***
  - ***Price signage that clearly communicates Shop Rite's price advantage***

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Keys To Success

- ✓ ***Price the product so it will sell***
- ✓ ***Make the product (packs and cartons) accessible***
  - ***Visible***
  - ***Easy to buy***
  - ***Quick....no waiting***
- ✓ ***Make your customer feel welcome***
  - ***Because they smoke, and choose to buy cigarettes in your store***
  - ***Don't make them go elsewhere...you may lose them permanently!***
  - ***Make the customer want to come back***

FACT: Overall, smokers spend 13% more than non smokers per shopping trip!*

**1992 "Progressive Grocer "Market Basket" Study*

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